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Public Service Commission of Wisconsin

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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Ms. Magalie Roman Salas
Office of the Secretary
Federal Communications Commission
1919 M Street NW, Room 222
Washington, DC 20554

Re: 1998 Biennial Regulatory Review— Review of Accounting and Cost Allocation Requirements — FCC 98-108, CC Docket No. 98-81

United States Telephone Association Petition for Rulemaking — ASD File No. 98-64

Enclosed are an original and nine copies of the comments by the Public Service Commission of Wisconsin regarding the Federal Communications Commission's proposed modifications to accounting and cost allocation requirements.

Dated at Madison, Wisconsin September 1, 1998

By the Commission:

Lynda L. Dorr

Lynda L. Dorr
Secretary to the Commission

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Enclosures

cc: Warren Firschein, FCC (diskette enclosed)
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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matters of	)	
	)	**FCC 98-108**
1998 Biennial Regulatory Review—	)	**CC Docket No. 98-81**
Review of Accounting and Cost	)	**ASD File No. 98-64**
Allocation Requirements	)	
	)	
United States Telephone Association	)	
Petition for Rulemaking	)	

REPLY COMMENTS
OF THE
PUBLIC SERVICE COMMISSION

Pursuant to a Notice of Proposed Rulemaking (NPRM) released June 17, 1998, in FCC 98-108, *1998 Biennial Regulatory Review—Review of Accounting and Cost Allocation Requirements*, the Federal Communications Commission (FCC) proposed revisions to the FCC's accounting and cost allocation rules. When investigating the need for changes to accounting and cost allocation rules, the Public Service Commission of Wisconsin (PSCW) recommends that the FCC consider the following:

1) That incumbent providers, with their long-term history of being monopoly service providers, often are the sole holders of certain cost data. The pricing standards in the Telecommunications Act of 1996 (Act) require that:
   a) Incumbent utilities provide interconnection and network element charges based upon cost per § 252(d)(1).

b) Charges for transport and termination of traffic shall be determined on the basis of a reasonable approximation of the additional costs of terminating such calls per § 252(d)(2).

c) Incumbent utilities provide wholesale rates based on retail rates less the marketing, billing, collection, and other costs that will be avoided by the local exchange carrier per §252(d)(3).

2) That accounting and reporting requirements are established by the Act to promote competition.

a) Section 272(b)(5) of the Act requires a Bell operating company to conduct all transactions with an affiliate on an arm's length basis and to reduce any such transactions to writing for public inspection.

b) Section 276(b)(1)(C) of the Act requires the FCC to prescribe a set of nonstructural safeguards, which at a minimum, are equal to those adopted in the Computer Inquiry III proceeding. This section applies to payphone service, a competitive activity which may be conducted in a combined entity with the utility and not in a separate affiliate.

3) That in allowing the use of an accounting system based solely on Generally Accepted Accounting Principles (GAAP), it is necessary that the system be in compliance with the Act. The FCC, therefore, may want to consider the following:

a) The system should provide guidance in accounting for transactions with affiliates on an arm's length basis.

b) The system should provide guidance in separating costs between jurisdictions or regulated and nonregulated activity.

c) The system should provide an adequate audit trail which maps to the current FCC Uniform System of Accounts (USOA).

d) A system should be put into place that ensures consistency between local exchange carriers (LECs) and competing providers.

4) The Act provides that Bell operating companies can compete unencumbered by these accounting requirements by forming separate affiliates and through buying all bottleneck telecommunications services at the same rates as their competitors in a nondiscriminatory manner.

5) Pursuant to the last rewrite of the USOA, it is the goal of the FCC to rely on the same database utilized by management rather than relying on data generated solely for submission to the regulatory agency. Therefore, any changes to the FCC accounting and reporting rules should be designed to meet both regulatory and management needs.

6) That any change in the level of accounting and reporting must insure that all informational needs of the FCC and state commissions are satisfied.

In response to the NPRM, the FCC received a position paper, *Accounting Simplification in the Telecommunications Industry*, prepared by the accounting firm of Arthur Andersen LLP (AA) on behalf of a coalition of local exchange carriers including Ameritech Corporation, BellSouth Corporation, GTE Services Corporation, SBC Communications, Inc., and U.S. West, Inc. In the position paper, AA asserts that, under price cap regulation without earnings sharing, the current accounting and record keeping requirements of the FCC are no longer necessary to compute traditional rate of return type calculations. Accordingly, AA asserts that the ultimate goal of accounting and record keeping requirements should be to transition to full reliance on GAAP.

AA makes a number of recommendations to simplify FCC accounting and reporting requirements. AA recommends that, as part of the transition process to GAAP, the FCC should rely on Class B level of reporting and eliminate Class A main account detail. In addition, AA recommends other opportunities for simplification and streamlining in the following areas: (1) Part 32 account structure and accounting requirements, (2) property records and depreciation requirements, (3) affiliate transaction rules, and (4) the future role of regulatory oversight.

The PSCW does agree with AA that it is important to minimize regulatory burdens, as imposing unnecessary costs hurts all consumers. While AA only suggests reductions to existing accounting and record keeping requirements, the proper perspective should be to determine what changes are needed in the new environment. In some areas certainly less detail should be able to meet regulatory requirements. In other areas, greater detail may be needed to meet regulatory requirements.

The PSCW submits the following reply comments regarding the AA position paper. These reply comments do not represent an in-depth analysis but represent initial impressions of PSCW staff experienced in applying data from the system of accounts. The following comments apply only to large utilities (BOCs and GTE). Smaller utilities generally are still subject to traditional regulation and should continue their existing reporting systems.

1) Part 32 Account Structure and Accounting Requirements:

a) Class B level of detail could probably replace the Class A level of detail by cutting back on subsidiary accounts and still meet needs for separation of interstate and intrastate jurisdictions and assignments of costs to regulated and nonregulated operations. Each account can include sufficient cost pools and separations categories to meet these needs. However, some greater level of detail may be needed in new areas such as wholesale discounts, transport and termination of traffic, and unbundled network elements. A change to Class B accounting and reporting should allow for an adequate audit trail to track changes from the current Class A system and still maintain historical data.

b) Elimination of the expense matrix may be appropriate as this detail was primarily used in rate base rate of return calculations. However, there must be assurance that information on the expense categories of salaries and wages, benefits, rents and other will be available when needed by the FCC or state commissions.

c) GAAP principles of materiality seem reasonable as long as consistently applied and disclosed by each company.

d) Annual report disclosure for adoption of new accounting standards and recognition of extraordinary items, prior period adjustments, and contingencies in accordance with GAAP seems reasonable. However, there must be assurance that information regarding the impact will be available if the FCC or a state commission wants to reflect different regulatory treatment.

2) Property Records and Depreciation Requirements:

a) Depreciation rates and economic lives are not part of this proceeding and are being addressed in a separate rulemaking docket, *1998 Biennial Regulatory Review—Review of Depreciation Requirements for Incumbent Local Exchange Carriers*, FCC 98-170.

b) However, in reviewing depreciation rates and economic lives in FCC 98-170, the FCC should ensure that regulatory needs in areas such as evaluating unbundled network element costs are met.

c) The present accounts were established when the need was simply to have property with similar lives grouped together for purposes of applying depreciation rates. However, the existing plant accounts do not align well with unbundled network elements. For example, cable and wire accounts include investment associated with both loops and transport, which are separate unbundled elements. Current additions to plant accounts, that are aligned closely with unbundled network elements, would provide useful information in meeting the requirement that unbundled network elements be based upon cost. In addition, continuing property records have geographic specific data that could be useful in evaluating the proper targeting of universal service support.

3) Affiliate Transaction Rules:

a) In the order in CC Docket 96-150, the FCC recently made substantial changes to its affiliated interest rules. The FCC should forgo making any further changes until it can be determined that the current affiliated interest rules are not working.

b) Asymmetrical affiliate transaction rules are needed to guard against cross-subsidies which could give affiliates a cost advantage that competitors could never achieve. The market rate reflects the terms under which a company would be expected to sell to a non-affiliated company. The higher of cost or market assures the utility is fully compensated for work it does for an affiliate. The lower of cost or market shares economies of scale and scope when an affiliate sells to the utility and represents the cost the utility could have achieved if it produced the goods or service itself.

c) If the 50 percent threshold for prevailing prices is eliminated, what will take its place? Is there a more appropriate threshold that AA recommends? Does AA believe that no threshold is appropriate? If so, how can the FCC verify the appropriateness of a prevailing price? Should prevailing prices be eliminated as an alternative? Does AA recommend that the threshold be determined on a case-by-case basis? The PSCW believes that there is a need for a threshold due to past experiences by this Commission and other state commissions in using prevailing prices.

d) AA's recommendation to implement a materiality-based and/or rotational requirement for performing fair market value studies appears reasonable. Applicable Wisconsin laws dealing with similar circumstances support the use of $100,000 rather than the $1 million limit proposed by AA.

e) Recommendations about expanding exemption related to nonregulated affiliates that exist solely to provide services to members of an affiliated group to price at cost should be considered.

In summary, the scope of the rules changes proposed by the FCC in this proceeding are reasonable. As expanded by the AA position paper, the scope of this proceeding has become broader than initially proposed. While it may be reasonable to consider the AA recommendations related to Part 32 account structure and accounting requirements in this proceeding, the FCC may want to consider the AA recommendations which redefine the objective of accounting and record keeping to full reliance on a GAAP based accounting system in future rulemaking proceedings. Future rulemaking proceedings should allow sufficient time for industry-wide participation to reevaluate the appropriate level of accounting and record keeping requirements in the light of the changing regulatory environment. Recommendations related to depreciation requirements should be considered in FCC 98-170. Recommendations related to affiliate transaction rules should be deferred until the next biennial review to allow for sufficient time to determine if the current rules are working.

Dated at Madison, Wisconsin September 1, 1998

By the Commission:

Lynda L. Dorr
Secretary to the Commission

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